Income for retirement: a survey

By A.D. Kelly, MB

At the request of MD Management Ltd., I have conducted a survey of the 157 physicians who, between Jan. 1, 1973 and Oct. 1, 1974, converted to an annuity their assets in the Canadian Medical Association Retirement Savings Plan (CMARSP). This study is intended to supplement the findings of a similar questionnaire addressed to the 99 members who converted during the period Jan. 1, 1969 to Apr. 1, 1971. The figures of the previous survey were quoted in the financial paragraphs of an article, "The doctor's retirement", published in *CMAJ* Nov. 20, 1971. For comparative purposes the relevant findings of the original study will be indicated in brackets. It is worthy of note that in the 22 months covered by the current study four of our colleagues have died.

The cooperation of the group has been outstanding, and in 4 weeks 95 (66) have replied; it is considered that the 60% response rate provides a representative sample. Their age in 1975 averages 68 years, high 74, low 58; this average is not significantly different from that of the previous figures, again reflecting the influence of ill health and employment policies on early retirement.

The value of their savings in CMARSP at the time of withdrawal averaged $45 122 ($26 328), high $86 079, low $4000 ($53 000, $2314). The striking differences may be attributed to (a) a period of 3 years longer to participate, (b) the increase in 1972 of the tax deferred maximum annual contribution from $2500 to $4000 and (c) the increase in the interest rate credited to current contributions invested in the insured annuity fund from 7.5% in December 1972 to 10.25% in September 1974. Offsetting these advantages, the collapse of the stock market reduced the unit value of the equity fund from $29.95 at Dec. 31, 1972 to $20.03 at Sept. 30, 1974, thus reducing the annuity expectations of many who withdrew in 1974.

Reprint requests to: MD Management Ltd., Box 8650, Ottawa, Ont. K1G 0G8.

The average annuity purchased, with wide variations in the options chosen, was $5130 ($3207), high $11 760, low $500 ($5566, $231). Respondents were asked to estimate the proportion of their retirement income which would be derived from their CMARSP annuity. Disregarding the difficulties of answering precisely, the consensus was that 34.7% (43%) would be so derived.

The previous survey had established the estimate that 52% of recent annual income is necessary to avoid a drop in the standard of living on retirement, and at that time official reports indicated that physicians and surgeons had average taxable incomes of $31-000. The corresponding figure for 1972 is listed at $42 000 and 61% of respondents indicate that, in their experience, this estimate is high.

In the current survey the respondents estimated that 55% of recent annual income would be necessary in retirement and, using the figures quoted above, $23 100 would be the objective. This sum is a far cry from the average CMARSP annuity of $5130 leaving $17 970 to be supplied from other sources.

These include the old age security pension which, in 1975, will commence at $1440.72 per annum subject to quarterly adjustments related to the cost of living. The Canada Pension Plan will amount to $1452 per annum for those persons who contributed the maximum during their earning years.

The sum of the two pensions and annuity mentioned will, for the average medical retiree, realize the sum of $8022. To realize the postulated income, $15 078 needs to be derived from other sources.

Remunerative employment will continue to add to income; among the 95 respondents to the questionnaire, 56 still conduct some clinical practice and 47 continue to live in the same community.

Income from investments and other savings will, it is hoped, supplement the income of the retired physician, and an interpretation of the respondents' replies suggests that about 60% of such income must be derived from these sources.

The remarks of these colleagues who replied to my prying questions indicate that they are well aware of the current inflationary trends. Most of them agree that CMARSP has been advantageous for tax deferment and for the incentive to save. Few indicate that, even with hindsight, they would have varied the proportion of their contributions in the two funds. Most of the remarks are very complimentary to Messrs. Bob Wright and Mike Landry for the advice and service they have rendered and some indicate regret that they did not follow the advice. There appears to be less satisfaction in the amount of annuity derived from their savings and there are some suggestions that an amendment of the rules applying to RRSPs might provide for more flexible and profitable investment of the capital sum.

The tax position of senior citizens seems likely to be somewhat ameliorated if the recent budget forecast is followed. In 1974 an additional personal exemption of $1066 ($1000 in 1973) is available to taxpayers over 65. A federal tax reduction of 5% (minimum $150, maximum $500) for those reporting employment earnings and up to $1000 interest income from Canadian sources may be deducted from your taxable income. Under the new budget, the personal age exemption in 1975 will be increased to $1174 and the portion of the age exemption not used by your spouse can be transferred to your exemption.

In 1975 the first $1000 interest or dividend income from Canadian sources will be deductible for income tax purposes. You will also be allowed to deduct from earned income the first $1000 pension income received from sources such as employee-employer relationship pension plans and a registered retirement savings plan. This deduction does not apply to income received from the old age security and the Canada or Quebec pension plans. ■